tax, there was a corresponding criticism made at that time against the positive income tax.

Essential Features of the Negative Income Tax

The negative income tax is a device to reduce or close the poverty gap by making payments to those in the lowest income classes in inverse relation to their incomes (i.e., the lower their incomes the higher the payments). It is called a negative income *tax* because the payments can be regarded as an extension of the principle of progression, which now applies under the positive income tax, to those who are at the bottom of the income scale. But this does *not* mean that all the features of the positive income tax need be carried over into the negative income tax. As we shall see, it would probably be desirable to modify most of the definitions in the positive income tax structure in order to make the negative income tax workable and fair.

There are three essential features to the negative income tax:

1. The amount of the negative tax payment would be determined on the basis of income, and size and composition of the family unit.
2. The only test to be applied in determining eligibility would be the comparison between the family's income and the "breakeven" level for that type of family. In other words, payments would be made to all the poor, and not to certain categories of the poor.
3. The income of the family would be subject to tax, but this tax would be substantially less than 100 percent.

There is a fixed relationship among three variables in any negative income tax—the basic allowance (A), the breakeven level (B), and the tax rate (t) on the family's income—and it is impossible to vary one variable without affecting at least one of the other two. The relationship is that the basic allowance is the product of the tax rate and the breakeven level (or A=tB). Thus, if the breakeven level is $3,000 and the tax rate is 50 percent, the basic allowance is $1,500. Conversely, if you wish to have a basic allowance of $2,000 and keep the breakeven level at $3,000, the tax rate must be 66⅔ percent. Examples of consistent A's, B's and t's are shown in Table 1; there are, of course, many other possibilities.

TABLE 1.—ILLUSTRATIVE BASIC ALLOWANCES, TAX RATES, AND BREAKEVEN LEVELS

Basic allowance (A)	Tax rate (t) (percent)	Breakeven level (B)
$1,500	50	$3,000
$2,000	66⅔	3,000
$2,000	50	4,000
$3,000	75	4,000
$1,000	33⅓	3,000
$3,000	100	3,000

Because of these relationships, the negative income tax can be thought of in two ways. It can be regarded as providing a basic allowance to all persons, together with a special tax rate on the incomes of those who accept the allowance. Or, it can be regarded as a payment which reduces the gap between income and the breakeven level by the same tax rate. The equivalence between these two approaches may be illustrated with the first combination of A, t and B in Table 1. According to the first method, a family with an income of $1,000 would receive a basic allowance of $1,500 and would pay a tax of $500 on its income, which would leave it with a disposable income of $2,000. According to the second method, the family would receive a payment of $1,000—50 percent of the difference between the $3,000 breakeven level and its income of $1,000—leaving it with the same disposable income of $2,000.

Note that the last entry in the table shows a basic allowance equal to the breakeven level. This occurs whenever the income recipient must give up one dollar of his allowance for every dollar of income he may receive: in other words, when the tax rate is 100 percent. The U.S. welfare system had this feature until the Social Security Amendments of 1967 required the states to permit recipients to keep some part of whatever they might earn. (This provision will become fully operative in mid-1969.)

It might also be noted that there is essentially no difference between a negative income tax and a guaranteed minimum income plan. Under the negative